



City of Shelbyville, Kentucky
Independent Auditors' Report
And Financial Statements
For the Year Ended
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

Mayor and Members of the City Council
City of Shelbyville, Kentucky
Shelbyville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Shelbyville's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky, as of June 30, 2022, the respective changes in financial position and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City adopted Government Accounting Standards Board Statement No. 87 – *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for the twelve months beyond the financial statement date including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we;

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension and OPEB schedules on page 42-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information – proprietary fund and special revenue funds, and combining statements – special revenue funds on pages 47-50 (collectively “*other supplementary information*”) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information – proprietary fund and special revenue funds, and combining statements – special revenue funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The City Officials and Council Members listing, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Baldwin CPA's, PLLC

Baldwin CPA's, PLLC
Richmond, Kentucky
September 29, 2023

City of Shelbyville, Kentucky
Statement of Net Position
June 30, 2022

	Primary Government			Water & Sewer Component Unit
	Governmental	Business-Type	Total	
	Activities	Activities		
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,012,756	\$ 111,751	\$ 7,124,507	\$ 2,126,089
Restricted cash	257,983	-	257,983	22,159,760
Certificates of deposit	3,000,000	-	3,000,000	-
Trade accounts receivable	-	-	-	659,328
Taxes and licenses receivable	1,691,902	-	1,691,902	-
Other receivables	96,452	-	96,452	60,721
Lease receivables - current	-	-	-	16,466
Materials inventory	-	-	-	144,253
Prepaid expenses	-	-	-	159,718
Total current assets	12,059,093	111,751	12,170,844	25,326,335
Non-current assets:				
Lease receivable - noncurrent	-	-	-	264,452
Intangible right-of-use assets, net	13,068	-	13,068	-
Capital assets:				
Land	1,404,232	2,956,223	4,360,455	244,706
Water rights	-	-	-	165,652
Construction work in progress	-	-	-	4,966,044
Depreciable fixed assets	30,811,516	2,052,705	32,864,221	75,924,457
Accumulated depreciation	(11,546,276)	(1,236,919)	(12,783,195)	(36,259,829)
Total non-current assets	20,682,540	3,772,009	24,454,549	45,305,482
Total Assets	32,741,633	3,883,760	36,625,393	70,631,817
Deferred Outflows of Resources				
Deferred outflows of resources - pension and OPEB	4,379,088	315,342	4,694,430	1,428,791
Deferred outflows of resources - loss on debt refunding	-	-	-	243,915
Total deferred outflows of resources	4,379,088	315,342	4,694,430	1,672,706
Total Assets and Deferred Outflows	\$ 37,120,721	\$ 4,199,102	\$ 41,319,823	\$ 72,304,523
Liabilities				
Current liabilities:				
Accounts payable	\$ 46,286	\$ 24,615	\$ 70,901	\$ 351,589
Claims payable	101,355	4,708	106,063	6,206
Accrued payroll	174,376	33,298	207,674	-
Accrued expenses and withholdings	127,572	34,726	162,298	77,247
Deferred revenue	2,963,506	-	2,963,506	-
Customer deposits	-	-	-	301,872
Accrued interest	-	-	-	196,264
Accounts payable - construction	-	-	-	257,068
Lease liability	7,190	63,301	70,491	-
Compensated absences	9,441	1,390	10,831	-
Bonds outstanding	140,000	-	140,000	1,225,030
Total current liabilities	3,569,726	162,038	3,731,764	2,415,276
Non-current liabilities:				
Compensated absences	934,661	137,586	1,072,247	-
Lease liability	5,916	108,723	114,639	-
Bonds outstanding	4,334,062	-	4,334,062	33,152,490
Net OPEB Liability	4,345,979	242,620	4,588,599	1,078,659
Net pension liability	14,565,249	491,322	15,056,571	3,593,160
Total non-current liabilities	24,185,867	980,251	25,166,118	37,824,309
Total Liabilities	27,755,593	1,142,289	28,897,882	40,239,585
Deferred Inflows of Resources				
Deferred inflows of resources - pension and OPEB	4,029,675	304,319	4,333,994	1,204,318
Deferred inflows of resources - leases	-	-	-	246,836
Total deferred inflows of resources	4,029,675	304,319	4,333,994	1,451,154
Total Liabilities and Deferred Inflows	31,785,268	1,446,608	33,231,876	41,690,739
Net Position				
Investment in capital assets, net of related debt	16,195,410	3,599,985	19,795,395	22,805,591
Restricted for:				
Streets	566,041	-	566,041	-
Community development/economic assistance	25,047	-	25,047	-
Debt service	-	-	-	683,450
Capital projects	-	-	-	3,780,828
Surplus	-	-	-	179,999
Other	21,224	-	21,224	-
Unrestricted	(11,472,269)	(847,491)	(12,319,760)	3,163,916
Total Net Position	5,335,453	2,752,491	8,087,944	30,613,784
Total Liabilities, Deferred Inflows and Net Position	\$ 37,120,721	\$ 4,199,102	\$ 41,319,823	\$ 72,304,523

City of Shelbyville, Kentucky
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Primary Government - Net Revenue (Expense)			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 6,008,217	\$ 215,309	\$ 165,000	\$ -	\$ (5,627,908)	\$ -	\$ (5,627,908)	\$ -
Police	2,615,093	-	170,621	-	(2,444,472)	-	(2,444,472)	-
Fire	1,923,930	-	97,526	-	(1,826,404)	-	(1,826,404)	-
Streets	1,135,043	-	-	877,274	(257,769)	-	(257,769)	-
Community development	284,503	-	-	-	(284,503)	-	(284,503)	-
Parks and recreation	388,384	-	-	-	(388,384)	-	(388,384)	-
Interest on long-term debt	171,611	-	-	-	(171,611)	-	(171,611)	-
Total Governmental Activities	12,526,781	215,309	433,147	877,274	(11,001,051)	-	(11,001,051)	-
Business-Type Activities:								
Golf course	1,210,530	876,426	-	-	-	(334,104)	(334,104)	-
Total Business-Type Activities	1,210,530	876,426	-	-	-	(334,104)	(334,104)	-
Total Primary Government	\$ 13,737,311	\$ 1,091,735	\$ 433,147	-	(11,001,051)	(334,104)	(11,335,155)	-
Component unit:								
Water and sewer commission	8,290,261	8,954,117	-	18,738	-	-	-	682,594
Total Component Unit	\$ 8,290,261	\$ 8,954,117	\$ -	\$ 18,738	-	-	-	682,594
General Revenues								
Taxes:								
					3,353,399	-	3,353,399	-
					1,707,112	-	1,707,112	-
					300,963	-	300,963	-
					542,541	-	542,541	-
					43,021	-	43,021	-
					699,332	-	699,332	-
					27,978	-	27,978	-
					24,792	-	24,792	-
Licenses and Permits:								
					529,771	-	529,771	-
					5,133,926	-	5,133,926	-
					200,258	-	200,258	-
					19,171	27	19,198	64,075
					55,609	-	55,609	-
Total General Revenues					12,637,873	27	12,637,900	64,075
Transfers					83,208	75,000	158,208	(158,209)
Change in net position					1,720,030	(259,077)	1,460,953	588,460
Net Position - June 30, 2021, as originally reported					3,615,423	3,011,568	6,626,991	29,993,970
Prior period adjustment					-	-	-	31,354
Net Position - June 30, 2021, as restated					3,615,423	3,011,568	6,626,991	30,025,324
Net Position, June 30, 2022					\$ 5,335,453	\$ 2,752,491	\$ 8,087,944	\$ 30,613,784

City of Shelbyville, Kentucky
Balance Sheet - Governmental Funds
June 30, 2022

	General Fund	Capital Projects Fund	American Rescue Plan Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 3,583,049	\$ 560,258	\$ 1,565,369	\$ 1,304,080	\$ 7,012,756
Restricted cash	257,983	-	-	-	257,983
Certificates of deposit	3,000,000	-	-	-	3,000,000
Receivables					
Taxes and licenses	1,691,902	-	-	-	1,691,902
Other	46,301	-	-	50,151	96,452
Total assets	\$ 8,579,235	\$ 560,258	1,565,369	\$ 1,354,231	\$ 12,059,093
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 40,295	\$ -	-	\$ 5,991	\$ 46,286
Claims payable	101,355	-	-	-	101,355
Accrued payroll	174,376	-	-	-	174,376
Accrued expenses and withholdings	127,572	-	-	-	127,572
Deferred revenue	-	1,400,000	1,563,506	-	2,963,506
Total Liabilities	443,598	1,400,000	1,563,506	5,991	3,413,095
Fund balances					
Restricted for:					
Police	-	-	-	21,224	21,224
Streets	-	-	-	566,041	566,041
Community development/economic assistance	-	-	-	25,047	25,047
Assigned for:					
Tourism	-	-	-	487,565	487,565
Retirement/benefits	-	-	-	162,714	162,714
Other	-	-	1,863	85,649	87,512
Unassigned (deficit)	8,135,637	(839,742)	-	-	7,295,895
Total fund balances	8,135,637	(839,742)	1,863	1,348,240	8,645,998
Total Liabilities and Fund Balances	\$ 8,579,235	\$ 560,258	1,565,369	\$ 1,354,231	\$ 12,059,093

City of Shelbyville, Kentucky
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 June 30, 2022

Fund balances - total governmental funds		\$ 8,645,998
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated depreciation of \$11,546,276		20,669,472
Leased assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated amortization of \$11,076		13,068
Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Deferred outflows related to pension and OPEB	4,379,088	
Deferred inflows related to pension and OPEB	<u>(4,029,675)</u>	349,413
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.		
Bonds payable	(4,474,062)	
Lease liability	(13,106)	
Net pension liability - CERS	(14,565,249)	
Net OPEB liability - CERS	(4,345,979)	
Compensated absences	<u>(944,102)</u>	<u>(24,342,498)</u>
Net position of governmental activities		<u>\$ 5,335,453</u>

City of Shelbyville, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2022

	General Fund	Capital Projects Fund	American Rescue Plan Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 6,068,200	\$ -	\$ -	\$ 727,646	\$ 6,795,846
Licenses and permits	5,543,033	-	-	-	5,543,033
Intergovernmental revenue	268,147	121,007	590,320	531,205	1,510,679
Charges for services	115,309	100,000	-	-	215,309
Interest income	16,734	1,877	1,863	226	20,700
Fines and forfeitures	24,792	-	-	-	24,792
Miscellaneous income	22,863	3,128	-	12,955	38,946
Total Revenue	12,059,078	226,012	592,183	1,272,032	14,149,305
Expenditures					
General government	5,399,308	-	51,791	45,196	5,496,295
Police	2,368,301	-	-	13,276	2,381,577
Fire	1,603,619	-	-	37,346	1,640,965
Streets	662,241	-	-	86,900	749,141
Parks and recreation	365,757	-	8,400	-	374,157
Community Development	115,070	-	-	145,033	260,103
Debt service	1,064,616	-	-	290,538	1,355,154
Capital outlay	2,339,982	1,531,798	530,129	618,639	5,020,548
Total Expenditures	13,918,894	1,531,798	590,320	1,236,928	17,277,940
Excess of Revenues					
Over (under) expenditures	(1,859,816)	(1,305,786)	1,863	35,104	(3,128,635)
Other Financing Sources (Uses):					
Other income (expense)	(11,449)	-	-	-	(11,449)
Transfers In	161,307	-	-	-	161,307
Transfers Out	(78,099)	-	-	-	(78,099)
Total Other Financing Sources (Uses)	71,759	-	-	-	71,759
Net Change in Fund Balance	(1,788,057)	(1,305,786)	1,863	35,104	(3,056,876)
Fund Balances June 30, 2021	9,923,694	466,044	-	1,313,136	11,702,874
Fund Balances June 30, 2022	\$ 8,135,637	\$ (839,742)	\$ 1,863	\$ 1,348,240	\$ 8,645,998

City of Shelbyville, Kentucky
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance to the Statement of Activities
 for the year ended June 30, 2022

Net change in fund balances - total government funds \$ (3,056,876)

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Governmental funds report capital outlays as expenditures while governmental
 activities report depreciation expense to allocate those expenditures over the
 life of the assets:

Capital asset purchases capitalized	5,020,548	
Depreciation expense	<u>(1,396,608)</u>	3,623,940

Governmental funds report lease payments as expenditures while
 governmental activities report amortization expense to allocate those
 expenditures over the life of the lease:

Amortization expense		(6,651)
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Repayment of debt principal is an expenditure in the Governmental Funds,
 but the repayment reduces long-term liabilities in the Statement of Net
 Position.

Debt principal payments		1,183,543
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Lease proceeds provide current financial resources to Governmental Funds,
 but issuing debt increases long-term liabilities in the Statement of Net
 Position. Repayment of lease liability is an expenditure in the Governmental
 Funds, but the repayment reduces lease liability in the Statement of
 Net Position.

Lease liability expenditures		11,038
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Some expenses reported in the statement of activities do not require the use of
 current financial resources and therefore are not reported as expenditures in the
 governmental funds.

CERS pension and OPEB plan	(13,633)	
Compensated absences	<u>(21,331)</u>	<u>(34,964)</u>

Change in net position of governmental activities \$ 1,720,030

City of Shelbyville, Kentucky
Statement of Net Position - Proprietary Fund - Golf Course
June 30, 2022

Assets

Current assets		
Cash	\$	111,751
		111,751
Noncurrent Assets		
Capital assets, net of depreciation		3,772,009
Total Noncurrent Assets		3,772,009
Total Assets		3,883,760
Deferred Outflows of Resources		315,342

Liabilities

Current liabilities		
Account payable		24,615
Claims payable		4,708
Accrued payroll		33,298
Accrued expenses and withholdings		34,726
Compensated absences		1,390
Current portion - lease liabilities		63,301
		162,038
Noncurrent Liabilities		
Compensated absences		137,586
Lease liabilities		108,723
Net pension liability		491,322
Net OPEB Liability		242,620
		980,251
Total Liabilities		1,142,289
Deferred Inflows of Resources		304,319

Net Position

Investment in capital assets		3,599,985
Unrestricted		(847,494)
		2,752,491
Total Net Position	\$	2,752,491

City of Shelbyville, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund - Golf Course
For the Year Ended June 30, 2022

Operating Revenues		
Green fees	\$	315,998
Driving range		43,327
Cart rental		213,282
Sale of concessions		101,872
Season passes		40,453
Cart passes		19,365
Other revenue		142,129
Total Operating Revenues		<u>876,426</u>
Operating Expenses		
Salaries		421,846
Payroll taxes		29,997
Retirement expenses		130,940
Utilities		34,664
Repairs and maintenance		72,044
Office expense		778
Employee uniforms		5,610
Credit card charges		37,017
Dues and travel		2,306
Sales tax		43,675
Fuel and oil		18,273
Fertilizer/chemicals		59,262
Concessions		63,094
Miscellaneous		95,411
Small equipment and parts		3,561
Depreciation		182,178
Total Operating Expenses		<u>1,200,931</u>
Operating loss		<u>(324,505)</u>
Nonoperating Revenues (Expenses)		
Interest expense		(9,599)
Interest earned		27
Total Nonoperating Revenues (Expenses)		<u>(9,572)</u>
Transfers in		<u>75,000</u>
Change in Net Position		(259,077)
Net Position, June 30, 2021		<u>3,011,568</u>
Net Position, June 30, 2022	\$	<u><u>2,752,491</u></u>

City of Shelbyville, Kentucky
Statement of Cash Flows
Proprietary Fund - Golf Course
For the Year Ended June 30, 2022

Cash flows from operating activities	
Receipts from customers	\$ 876,426
Payments to suppliers	(398,313)
Payments for employees	(476,771)
Payments of taxes	(43,675)
Net cash used in operating activities	<u>(42,333)</u>
Cash flows from noncapital financing activities	
Interest received	27
Interfund activity	75,000
Net cash provided by noncapital financing activities	<u>75,027</u>
Cash flows from capital and related financing activities	
Acquisition of property and equipment	(41,180)
Interest paid on long-term debt	(9,599)
Principal payments on lease obligations	(47,379)
Net cash used in capital and related financing activities	<u>(98,158)</u>
Net decrease in cash	(65,464)
Cash, beginning of year	177,215
Cash, end of year	<u><u>\$ 111,751</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (324,502)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	182,178
Change in assets and liabilities:	
Accounts payable	(10,051)
Accrued Payroll	1,751
Claims payable	4,030
Accrued expenses and withholdings	879
Compensated absences	20,426
Net pension and OPEB liability	82,956
Net cash used in operating activities	<u><u>\$ (42,333)</u></u>

City of Shelbyville, Kentucky
Notes to Financial Statements
June 30, 2022

Note 1 - Summary of Significant Accounting Policies

The City of Shelbyville, Kentucky (The “City”) operates under a Mayor-Council form of government. The City’s major operations include fire and police protection, parks and recreation, streets, community development, and general administrative services.

The citizens of the City of Shelbyville elect a mayor-at-large and six (6) city council members.

The basic financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitute GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

The accounts of the City are organized into funds each of which is considered a separate accounting entity. The major fund categories and account groups are:

Governmental Fund Types

Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

General Fund:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund:

The Capital Projects Fund is used by the City to track the financial resources used to acquire and construct major capital assets.

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund Types

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund’s activities are included on its balance sheet.

1. Since Fiscal year 1992, the City of Shelbyville, Kentucky owns and operates a municipal golf course. All employees are employed by the City. The City runs the day-to-day operations of the golf course; therefore, the activity has been included herein. The golf course derives its revenue primarily from green fee charges and cart rental fees.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Government-wide Financial Statements

Government-wide financial statements use the economic resources measurement focus just like proprietary funds.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resource's measurement focus and accrual basis of accounting. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlays are replaced with both capitalized capital assets and depreciation expense.

Discretely Presented Component Unit

The financial statements of the City of Shelbyville, Kentucky include the funds, agencies, boards, and entities for which the City is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined based on the government's ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the city is financially accountable or the organization's exclusion would cause the city's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units provide their services either exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as primary government. The city's component unit is discretely presented.

The Shelbyville Municipal Water and Sewer Commission (the "Commission") operates a combined water and sewer system, which serves Shelbyville and the surrounding area. The original Commission established in 1955 was dissolved, re-established, and restructured during 1993. During 2000, the Shelby County Fiscal Court conveyed all property and assets of Sanitation District No. 1 to the Commission and the Commission assumed the debts and obligations of Sanitation District No. 1 to form a newly constituted Commission. The new Commission consists of seven voting members. The Mayor of the City of Shelbyville, Kentucky shall be one voting member and shall serve as chairperson. Three other members are to be appointed by the Mayor, with approval of the City Council. One of the three members appointed by the Mayor shall be a member of the City Council. Three members are to be appointed by the Shelby County Judge Executive, with approval of the Fiscal Court. One of the three members appointed by the Judge Executive shall be a member of the Fiscal Court. Since the City exercises oversight authority over the Water and Sewer Commission, and the Mayor plus the mayor's appointees are a majority of the Commissioners, the Commission qualifies to be reported as a discretely presented component unit of the City.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The Shelbyville Municipal Water and Sewer Commission is a component unit of the City of Shelbyville, Kentucky. It derives its revenues primarily from water and sewer receipts. The component units' column in the Statement of Net Position and the Statement of Activities is presented separately to emphasize this organizations' distinction from the City primary government. The component unit of the City issues separately audited financial statements and may be obtained by contacting the Shelbyville Municipal Water and Sewer Commission.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government and it is discretely presented component unit. These statements report financial information for the City as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services that report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions that finance annual operating activities including restrictive investment income; and (3) capital grants and contributions that fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Basis of Accounting

Modified Accrual Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues available if they are collected within 60 days of the end of the fiscal year. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due. Major revenue sources susceptible to accrual include sales and use taxes, property taxes, franchise fees, insurance license fees and intergovernmental revenue.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Accrual Basis of Accounting

The accrual basis of accounting is used in the government-wide statements, the component unit, and in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. No provision has been provided for doubtful accounts because it is management's opinion that all amounts will be collected.

Budget Policy and Practice

The City and Water and Sewer Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor and Office Administrator are responsible for preparing the proposed operating budgets prior to each fiscal year commencing on July 1. The proposed operating budget is submitted to the City Council for approval. The budget is legally enacted through passage of an ordinance.
2. The Chairman submits an annual budget to the Commission at the May monthly meeting. The budget provides for any request by the Commission for surplus funds deposited in the name of the City. The annual budget is to be approved no later than June 30 of each year. Surplus funds in excess of the amount required to be maintained under the provision of the lease agreements between Kentucky Municipal Finance Corporation and the City of Shelbyville, Kentucky are to be deposited in the name of the City as provided in the lease agreements and may be transferred to the general fund of the City as provided in the lease agreements.
3. Budgeted amounts are as originally adopted, or as amended by the City Council or by the Shelbyville Municipal Water and Sewer Commission. The budget for the City of Shelbyville, Kentucky was amended by vote of the City Council.

Budget Basis of Accounting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City and have been revised for amendments authorized during the year.

For fiscal year 2022, the City's general fund expenditures were over budget by approximately \$3M primarily related to debt service and capital outlay.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents and Certificates of Deposit

For purposes of the statement of cash flows, the City of Shelbyville, Kentucky considers liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Insurance reserves are also considered cash equivalents.

The City has certificates of deposits and are reported at cost. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services. The certificates of deposit mature in less than one year.

Materials Inventory

The inventory of the System is priced at cost on the first-in, first-out basis.

Trade Accounts Receivable

Trade accounts receivable of the System are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year-end, accordingly, no provision has been provided for doubtful accounts.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not capitalized. All reported capital assets and improvements are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate element, deferred outflows of resources, represents a consumption of resources of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resource. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2021.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transfers

Pursuant to an Interlocal Cooperation Agreement dated January 31, 2000, between the City of Shelbyville, the Shelbyville Municipal Water Commission, and the County of Shelby, the City shall receive no more than 7% of the annual gross water and sewer revenues of the System, and any amounts transferred to the City shall represent surplus funds of the System.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue

The City defers revenue recognition in connection with resources that have been received but not yet earned.

Change in Accounting Policy

In June 2017, the GASB issued Statement No. 87, Leases which establishes standards of accounting and financial reporting for leases by lessees and lessors. The City has implemented this statement, to its financial statements for the year ending June 30, 2022, effective July 1, 2021. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City, implemented GASB 87 during the fiscal year ending June 30, 2022. These changes were incorporated in the City's June 30, 2022 financial statements. As a result of the implementation, the City restated certain Fiscal Year 2021 balances for governmental as noted below:

<u>Accounts</u>	June 30, 2021		June 30, 2021	
	Balance As		Balance As	
	Originally	Impact of	Restated	
	Reported	Restatement		
Net investment in leased assets	\$ -	\$ 13,273	\$ 13,273	
Lease liability	\$ -	\$ 13,292	\$ 1,292	

Intangible Right-to-Use Assets and Lease Liabilities

GASB Statement No. 87, *Leases*, requires recognition of certain intangible right-to-use assets and lease liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources.

Upcoming Accounting Standards

Statement No. 96 – In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The City continues to evaluate the impact of this statement on the City Financial statements.

Note 2 – Deposits

Effective January 1, 1995, the General Assembly enacted KRS 66.480 which limits investments of public funds generally to obligations of the U.S. and certain of its agency and instrumentality, certificates of deposits or other interest-bearing accounts of FDIC insured banks or savings and loan institutions

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 2 – Deposits (Continued)

directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial credit risk is the risk that in the event of a depository institution failure, the City's deposits may not be returned. The City does have a deposit policy for custodial credit risk and follows the requirements of KRS 41.240(4). The City of Shelbyville, Kentucky maintains numerous accounts at various depository banks. The City has pledged securities for those accounts with balances exceeding \$250,000. On June 30, 2022, FDIC insurance or a properly executed collateral security agreement covered all deposits. On June 30, 2022, \$4,597,308 of the City's bank balance of \$6,060,841 was exposed to custodial credit risk as described below:

Uninsured and collateral held by pledging bank	\$ 4,597,308
Uninsured and uncollateralized	-
Insured by FDIC	1,463,533
Total	<u>\$ 6,060,841</u>

COMPONENT UNIT

The Commission maintains numerous operating and restricted cash accounts at various depository institutions.

The Commission's deposit and investment policies conform to state statutes. The Commission deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of pledged treasury certificates by the pledging financial institution. As of June 30, 2022, all the Commission's \$24,285,849 bank balance was 100% collateralized by pledged treasury certificates by the financial institution.

Note 3 – Property Tax Calendar

Property taxes for fiscal year 2022 were levied in September 2021 on the assessed valuation of property, located in the City as of the preceding January 1, the lien date. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes, exclusive of vehicle taxes and local deposit franchise taxes, are as follows:

Description Date	Per K.R.S. 134.020
Due date for payment of taxes	Upon receipt
2% discount period	By November 30
Face value amount payment dates	December 1 to December 31
Delinquent date, 2% penalty	January 1
10% delinquent date	February 1

Note 4 - Municipal Road Aid

The City receives municipal aid from the Kentucky Department of Transportation to enable the City to meet their responsibilities for local streets and roads. The funds are restricted for construction and maintenance of roads only. As of June 30, 2022, the City had a carryover of \$365,790 from prior years and an excess of revenues over expenses of \$200,251 for the current period.

Note 5 - Compensated Absences

The City allows vacation leave according to the following: one year – 40 hours; two through nine years – 80 hours; during and after ten years – 120 hours; during and after twenty years – 160 hours. For Fire Department employees the City allows vacation leave according to the following: one year – 48 hours; two through nine years – 96 hours; during and after ten years – 144 hours; during and after twenty years – 192 hours. Vacation leave shall be accrued at the rate of 1/12th of the annual rate per month of employment. Sick pay may be accrued to a maximum of 1,008

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 5 - Compensated Absences (continued)

hours, but employees who voluntarily terminate employment or who are dismissed or laid off shall not be paid sick leave credit. Employees who work a holiday shall be compensated for actual hours worked at the regular rate of pay and shall receive another working day off with pay.

Accumulated unpaid vacation, sick leave, and holiday at June 30, 2022, are as follows:

<u>Vacation Pay</u>	
Administration	\$ 27,222
Fireman	39,564
Police	73,102
Public Works	30,566
Golf Course	16,440
Total	<u>186,894</u>
<u>Sick Pay</u>	
Administration	111,561
Fireman	184,345
Police	345,463
Public Works	127,201
Golf Course	118,251
Total	<u>886,821</u>
<u>Holiday Pay</u>	
Administration	-
Fireman	3,450
Police	1,449
Public Works	179
Golf Course	4,285
Total	<u>9,363</u>
<u>Total</u>	
Administration	138,783
Fireman	227,359
Police	420,014
Public Works	157,946
Golf Course	138,976
Total	<u>\$ 1,083,078</u>

Note 6 - Fixed Assets

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Capital assets are depreciated using the straight-line method.

City of Shelbyville, Kentucky
Table of Contents

Note 6 - Fixed Assets (continued)

The City's governmental activities capital assets are as follows:

Primary Government

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 1,404,232	\$ -	\$ -	\$ 1,404,232
CIP	5,319,613	-	(5,319,613)	-
Total Non-depreciable Assets	<u>6,723,845</u>	<u>-</u>	<u>(5,319,613)</u>	<u>1,404,232</u>
Depreciable Assets:				
Buildings and Improvements	7,939,281	7,118,846	-	15,058,127
Vehicles	4,512,358	274,775	(39,498)	4,747,635
Equipment	2,095,099	29,862	-	2,124,961
Furniture and Fixtures	299,244	-	-	299,244
Infrastructure	5,625,373	2,956,176	-	8,581,549
Total Depreciable Assets	<u>20,471,355</u>	<u>10,379,659</u>	<u>(39,498)</u>	<u>30,811,516</u>
Total Capital Assets	<u>27,195,200</u>	<u>10,379,659</u>	<u>(5,359,111)</u>	<u>32,215,748</u>
Accumulated Depreciation:				
Buildings and Improvements	(3,098,711)	(332,736)	-	(3,431,447)
Vehicles	(2,836,841)	(407,738)	39,498	(3,205,081)
Equipment	(1,682,445)	(128,229)	-	(1,810,674)
Furniture and Fixtures	(228,514)	(6,770)	-	(235,284)
Infrastructure	(2,342,655)	(521,135)	-	(2,863,790)
Total Accumulated Depreciation	<u>(10,189,166)</u>	<u>(1,396,608)</u>	<u>39,498</u>	<u>(11,546,276)</u>
Governmental Activities Capital Assets, Net	<u>\$17,006,034</u>	<u>\$ 8,983,051</u>	<u>\$ (5,319,613)</u>	<u>\$ 20,669,472</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 455,598
Police	233,516
Fire	282,965
Streets	385,902
Community Development	24,400
Parks and Recreation	14,227
Total Depreciation Expense	<u>\$ 1,396,608</u>

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 6 - Fixed Assets (Continued)

A summary of changes in proprietary fund type (golf course) fixed assets follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Business-type Activities:				
Non-depreciable Assets:				
Land	\$ 2,956,223	\$ -	\$ -	\$ 2,956,223
Total Non-depreciable Assets	2,956,223	-	-	2,956,223
Depreciable Assets:				
Buildings and Improvements	435,846	-	-	435,846
Equipment	877,944	41,180	-	919,124
Infrastructure	697,735	-	-	697,735
Total Depreciable Assets	2,011,525	41,180	-	2,052,705
Total Capital Assets	4,967,748	41,180	-	5,008,928
Accumulated Depreciation:				
Buildings and Improvements	(346,832)	(7,762)	-	(354,594)
Equipment	(614,019)	(91,794)	-	(705,813)
Infrastructure	(93,890)	(82,622)	-	(176,512)
Total Accumulated Depreciation	(1,054,741)	(182,178)	-	(1,236,919)
Business-type Activities Capital Assets, Net	\$ 3,913,007	\$ (140,998)	\$ -	\$ 3,772,009

COMPONENT UNIT

Capital assets activity for the year ended June 30, 2022 is as follows:

	Balance June 30, 2021	Additions	Deductions	Balance June 30, 2022
Capital assets not being depreciated				
Land	\$ 244,706	\$ -	\$ -	\$ 244,706
Water rights	165,652	-	-	165,652
Construction in process	3,607,692	3,821,871	(2,463,519)	4,966,044
Total capital assets not being depreciated	4,018,050	3,821,871	(2,463,519)	5,376,402
Depreciable Assets:				
Water plant in service	32,480,497	2,923,932	-	35,404,429
Sewer plant in service	37,924,323	243,363	-	38,167,686
Administrative and general	2,096,035	256,307	-	2,352,342
Total depreciable assets	72,500,855	3,423,602	-	75,924,457
Total capital assets	76,518,905	7,245,473	(2,463,519)	81,300,859
Accumulated Depreciation:				
Water plant in service	(15,516,510)	(835,674)	-	(16,352,184)
Sewer plant in service	(17,638,689)	(960,208)	-	(18,598,897)
Administrative and general	(1,277,045)	(31,703)	-	(1,308,748)
Total accumulated depreciation	(34,432,244)	(1,827,585)	-	(36,259,829)
Capital assets, net	\$ 42,086,661	\$ 5,417,888	\$ (2,463,519)	\$ 45,041,030

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 7 – Intangible right-to-use assets and lease liabilities

On July 1, 2021, the City implemented the guidance of Governmental Accounting Standards Board Statement No. 87 – Leases. The primary objective of this statement is to enhance the relevance and consistency of information about government's leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The following is a summary of intangible right to use asset activity during the fiscal year end June 30, 2022:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Intangible right-to-use asset by Group				
Office Equipment	\$ -	\$ 6,446	\$ -	\$ 6,446
Computer Equipment	17,698	-	-	17,698
Total intangible right-to-use asset	17,698	6,446	-	24,144
Less accumulated amortization				
Office Equipment	-	(752)	-	(752)
Computer Equipment	(4,425)	(5,899)	-	(10,324)
Total accumulated amortization	(4,425)	(6,651)	-	(11,076)
Total intangible right-to-use asset, net	\$ 13,273	\$ (205)	\$ -	\$ 13,068

Lease agreements and lease liabilities are summarized as follows:

Description	# of Leases in Group	Date of Lease	Lease Terms	Annual Payment Amount	Annual Interest Rate	Total Lease Liability	Remaining Balance June 30, 2022
Mail Machine	1	21-Dec	5 years	\$ 1,317	0.89%	\$ 6,446	\$ 5,704
Computer Hardware	1	20-Oct	3 years	5,940	0.47%	17,698	7,402
Total							\$ 13,106

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 7 – Intangible right-to-use assets and lease liabilities (Continued)

Annual requirements to amortize long-term lease obligations and related interest are as follows:

Governmental Activities

Year Ending June 30,	Principal	Interest
2023	\$ 7,190	\$ 68
2024	2,767	35
2025	1,295	23
2026	1,306	11
2027	548	1
Total	<u>\$ 13,106</u>	<u>\$ 138</u>

Business-type Activities

In June 2020, the City (Weissinger Hills Golf Course) entered into a lease agreement with a bank for the purchase of new golf carts. The lease agreement is for a 65-month period.

In May 2019, the City (Weissinger Hills Golf Course) entered into a lease agreement with a financial institution for the purchase of two mowers. The lease agreement is for a 60-month period.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Year ending June 30,	
2023	\$ 69,952
2024	69,952
2025	45,581
Future minimum lease payments	<u>185,485</u>
Less imputed interest	<u>13,461</u>
Net present value lease payments	<u>\$ 172,024</u>

The intangible right-of-use assets related to these leases are presented as components of capital assets, net of depreciation in the statement of net position.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 8 – Lease receivables

COMPONENT UNIT

Lease receivable

The Commission is reporting a lease receivable of \$280,918 at June 30, 2022. The lease is summarized as follows:

Lease	Lease Receivable	Lease Revenue	Lease Interest Revenue
Water tank attachment (Cell Tower)	\$ 280,918	\$ 18,867	\$ 5,823
Total	<u>\$ 280,918</u>	<u>\$ 18,867</u>	<u>\$ 5,823</u>

Water tank attachment lease – In August 2015, the Commission entered into a 20-year lease agreement with a company for the lease of space on a water tank tower for cell tower use. Based on this agreement, the Commission is receiving monthly payments through July 2035.

Year Ended June 30,	Principal	Interest
2023	\$ 16,466	\$ 5,495
2024	16,800	5,161
2025	17,141	4,820
2026	19,519	4,456
2027	20,101	4,056
Thereafter	<u>190,891</u>	<u>16,173</u>
Total	<u>\$ 280,918</u>	<u>\$ 40,161</u>

The deferred inflows of resources will be recognized over the term of the lease agreement as lease revenue. During 2022, the Commission recognized \$5,823 of interest revenue and \$18,867 of lease revenue from the lease agreements.

Note 9 – Notes and Bonds Payable

Primary Government -

In February 2020 the City entered into a loan agreement with Citizens Union Bank. This loan was to purchase a new fire truck. The total loan amount is \$1,074,472 with an interest rate of 3.59%. The length of the loan is 20 years with monthly required payments beginning in November 2020. This loan was fully satisfied in May 2022.

In April 2020 the City entered into a general obligation bond series 2020A. This bond was to finance the construction of the conference center. The total amount of the bond was \$4,865,000 with a 3% interest rate and term of 25 years with payments beginning October 2020.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 9 – Notes and Bonds Payable (Continued)

Future maturities of bond obligations of the governmental activities as of June 30, 2022:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2023	\$ 140,000	\$ 151,488	\$ 291,488
2024	145,000	147,288	292,288
2025	150,000	142,938	292,938
2026	155,000	138,438	293,438
2027	155,000	138,438	293,438
2028-2032	850,000	596,190	1,446,190
2033-2037	1,005,000	456,494	1,461,494
2038-2042	1,185,000	244,875	1,429,875
2043-2045	810,000	59,450	869,450
Total	<u>\$ 4,595,000</u>	<u>\$ 2,075,599</u>	<u>\$ 6,670,599</u>
Add: unamortized bond premium	\$ 19,062		
Less current portion	<u>(140,000)</u>		
Total long-term portion	<u>\$ 4,474,062</u>		

COMPONENT UNIT

On April 21, 2021 the Commission refinanced the series 2004 Bonds through a \$6.5 million general obligation lease through the Kentucky Bond Corporation. The net proceeds of the general obligation lease were used to pay off the 2004 KLC lease obligation. The refinance was recorded as a current refunding and the Commission recognized a loss of debt refunding of \$257,890. The loss is recorded as deferred outflow of resources and the loss will be amortized over the life of the new debt.

As a result of the refunding, the 2004 lease obligation is considered to be extinguished and the liability for that debt has been removed from long-term debt. Repayment of the new general obligation lease begins in June 2021 at an interest rate of 3% and will be paid back across 20 years with a maturity of February 2041.

On December 2, 2015, the City of Shelbyville entered into a variable rate lease agreement with the Kentucky Bond Corporation as lessor. Under the agreement, revenue bonds of \$4,190,000 were sold at par. Proceeds were used for improvements to the Shelbyville Wastewater Treatment Plant including the acquisition, construction, renovation and equipping of the system related to changing its disinfection process from free chlorine to chloramines.

The bonds sold under the lease agreement will be retired over nineteen (19) years with a 3.00% interest rate. The lessee shall pay base rentals in the amounts specified in its lease agreement. After notice from the lessor, the Commission will pay additional rentals within fifteen (15) days. Any lease rental payment that is not paid within ten (10) days of the date due shall bear interest thereon at the late payment rate.

On November 3, 2017, the City of Shelbyville, Kentucky, for and on-behalf of the Commission issued General Obligation Bonds, Series 2017, in the principal amount of \$6,500,000 to acquire, construct and equip the water treatment plant and certain other improvements. Interest on the bonds shall accrue at 4% per annum and will mature in 20 years. Principal and interest are payable on monthly basis. The bonds are secured by the revenues of the City and the Commission. The bonds established sinking funds for bond payments and project proceeds.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 9 – Notes and Bonds Payable (Continued)

In June 2021 the City of Shelbyville, Kentucky, for and on-behalf of the Commission issued a General Obligation Bond Series 2021, in the principal amount of \$20,250,000 to acquire, construct and equip a new wastewater treatment plant. Interest on the bond shall accrue at 2% per annum and will mature in 30 years. Principal and interest are payable on a semi-annual basis starting in December 2021. The balance of the bond at June 30, 2022 was \$19,735,000.

Future maturities of bond obligations of the Commission as of June 30, 2022:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2023	\$ 1,225,030	\$ 872,672	\$ 2,097,702
2024	1,258,668	840,616	2,099,284
2025	1,291,127	806,720	2,097,847
2026	1,327,751	772,389	2,100,140
2027	1,370,529	737,030	2,107,559
2028-2032	7,427,954	3,115,116	10,543,070
2033-2037	7,766,303	2,065,289	9,831,592
2038-2042	5,264,476	1,196,592	6,461,068
2043-2047	3,945,679	691,006	4,636,685
2048-2051	3,500,003	210,188	3,710,191
Total	<u>\$ 34,377,520</u>	<u>\$ 11,307,618</u>	<u>\$ 45,685,138</u>

A summary of changes in long-term liabilities of the Commission as of June 30, 2022 is as follows:

Bond obligations	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within a year</u>
Bond Series 2015	\$ 3,235,835	\$ -	\$ 192,083	\$ 3,043,752	\$ 199,164
Bond Series 2017	5,643,888	-	263,035	5,380,853	271,697
Bond Series 2021	20,250,000	-	515,000	19,735,000	505,000
KBC Bond 2021	6,473,125	-	255,210	6,217,915	249,169
	<u>\$ 35,602,848</u>	<u>\$ -</u>	<u>\$ 1,225,328</u>	<u>\$ 34,377,520</u>	<u>\$ 1,225,030</u>

Note 10 – Deferred Revenue

At the end of fiscal year 2022, revenue paid in advance of \$1,400,000 has been deferred as these amounts have not yet been earned related to advanced rental payments pursuant to an agreement with the Ohio Valley Educational Cooperative.

At the end of fiscal year 2022, revenue paid in advance of \$1,565,369 have been deferred as these amounts have not yet been earned primarily related to the American Rescue Plan Act.

OVEC Payments	\$ 1,400,000
ARPA Funds	<u>1,563,506</u>
Total Deferred Revenue	<u>\$ 2,963,506</u>

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 10 – Deferred Revenue (Continued)

In June of 2019 the City entered into an agreement with the Ohio Valley Educational Cooperative (OVEC). OVEC agreed to contribute to the City \$1,500,000 in four equal installments of \$375,000 each for the building of a conference center in exchange for the right to use the facility for 15 years. The installments are scheduled to be paid at various times based on agreed upon completion stages of the construction project. The City is to use these funds solely for expenses attributable to design, construction, and equipping the center. If for whatever reason, within fifteen years after a certificate of occupancy is issued, the parties agree to sell or cease operation of the center, or if it is damaged beyond use and the City decides not to repair or rebuild the center the City shall pay to OVEC the following amounts: In year 1 an amount of \$1,500,000, and subtracting \$100,000 each year thereafter until the final year any amount is to be paid to OVEC is year 15, and the amount to be paid in that final year is \$100,000. As of June 30, 2022 the City had received the certificate of occupancy and had received all payments from OVEC totaling \$1,500,000. The City has recognized \$100,000 of rent income for the year ended June 30, 2022 and reported \$1,400,000 of deferred revenue for the same period.

In April 2022 the City received approximately \$2,158,000 from the American Rescue Plan Act (ARPA) which, the City did not spend or commit all of the funds received before June 30, 2022, they recognized revenue of \$590,320 for the amount of funding spent on capital outlay and the remaining \$1,563,506 was recorded as deferred revenue until such time as it will be spent or committed to City projects.

Note 11 - Risk Management

The City of Shelbyville, Kentucky is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently carries property and general liability insurance and worker's compensation insurance through Kentucky League of Cities Insurance Services. The City reports all of its risk management activities in its General Fund and Golf Course Fund.

Note 12 – Long-Term Liability Summary

At June 30, 2022, long-term liabilities are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
GO Bond 2020A	\$ 4,730,000	\$ -	\$ (135,000)	\$ 4,595,000	\$ 140,000
Unamortized bond premium	19,891	-	(829)	19,062	-
Fire truck loan	1,048,543	-	(1,048,543)	-	-
Lease liabilities	13,293	6,446	(6,633)	13,106	7,190
Compensated Absences	922,771	21,331	-	944,102	-
	<u>6,734,498</u>	<u>27,777</u>	<u>(1,191,005)</u>	<u>5,571,270</u>	<u>147,190</u>
Business-type Activities:					
Lease liabilities	232,378	-	(60,354)	172,024	63,301
Compensated Absences	118,550	20,426	-	138,976	-
	<u>350,928</u>	<u>20,426</u>	<u>(60,354)</u>	<u>311,000</u>	<u>63,301</u>
	<u>\$ 7,085,426</u>	<u>\$ 48,203</u>	<u>\$ (1,251,359)</u>	<u>\$ 5,882,270</u>	<u>\$ 210,491</u>

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 13 – Employee Health Benefit Plan and Claims Liability

Effective July 1, 2006, the City implemented an employee health and welfare benefit plan providing medical benefits utilizing a preferred provider network, and prescription drug benefits. A copy of the Plan documents and insurance contracts, if any, are on file at the plan administrator’s office and may be read by any covered person at any reasonable time.

The plan is fully funded by the employer. Funds for payment of claims considered under the plan are forwarded to accounts from which claims are to be paid. The City maintains these funds and is the administrator, fiduciary and legal agent. Medical Benefits Administrators, Inc., 1975 Tamarack Road, P.O. Box 1099, Newark, Ohio 43058-1099 is the benefit manager. The plan is funded by contributions made by the employer and employees who are participating under the plan. Participation contributions are currently required for both participant and dependent coverage.

The City has purchased excess stop-loss insurance for medical expenses that exceed \$75,000 per covered individual for fiscal year June 30, 2022. The City records an estimated liability for indemnity health care claims. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Eligible claims are required to be presented within one-year of the date of service. Changes in the balances of claims liability are summarized below:

	Health Care General	Health Care Golf	Health Care Total
Liability balance, June 30, 2021	\$ 128,218	\$ 678	\$ 128,896
Claims and changes in estimates	560,159	120,128	680,287
Claims payments	(587,022)	(116,098)	(703,120)
Liability balance, June 30, 2022	<u>\$ 101,355</u>	<u>\$ 4,708</u>	<u>\$ 106,063</u>

Note 14 - Fund Balance and Net Position

In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes. Committed fund balances are reported pursuant to ordinances passed by the City Council, the City's highest level of decision-making authority.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balances.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In the Special Revenue Fund, the unassigned classification is only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 14 - Fund Balance and Net Position (Continued)

General Fund

The General Fund has unassigned fund balance of \$8,135,637 as of June 30, 2022.

Other Funds

The Municipal Road Aid Fund has restricted funds of \$566,041 that are set aside for City road repairs. The LGEA fund has restricted funds of \$25,047 that are set aside for community development and economic assistance. The Asset Forfeiture Fund has \$21,224 set aside for police use. The Retirement/Benefit fund has assigned funds of \$162,714 that are set aside for future retirement benefits. The restaurant tax fund has assigned funds of \$487,565 that are set aside for tourism. The Capital Projects Fund accounts for funds set aside for the construction of the conference center and has an unassigned balance of \$839,742.

Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

Note 15 - Retirement Plan

Primary Government

The City of Shelbyville is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statue 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2022, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications and 44.33% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 16. Plan members contributed 21.17% to the pension trust for non- hazardous job classifications and 33.86% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 15 - Retirement Plan (Continued)

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

The City's contribution for the fiscal year ended June 30, 2022, amounted to \$1,246,903 or 100% of the required contribution for non-hazardous and hazardous job classifications for the year ended June 30, 2022. For the fiscal year, ended June 30, 2022, the City's covered payroll for hazardous and non-hazardous positions was \$4,388,760.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old and 4 years service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up dependent children. Five years' service is required for nonservice-related disability benefits.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 15 - Retirement Plan (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the City reported a liability of \$15,056,571 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City's proportion was 0.412 percent for hazardous and 0.0642 percent for non-hazardous.

For the year ended June 30, 2022, the City recognized pension expense of \$1,357,556. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 742,550	\$ 671,829
Differences between expected and actual results	349,354	39,716
Changes of assumptions	191,865	-
Net difference between projected and actual earnings on Plan investments	-	1,722,466
City's contributions subsequent to the measurement date	1,246,903	-
Total	\$ 2,530,672	\$ 2,434,011

The \$1,246,903 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2023	\$ 6,483
2024	(176,387)
2025	(387,511)
2026	(592,827)
Total	\$ (1,150,242)

The schedule of deferred inflows and outflows include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments and for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 15 - Retirement Plan (Continued)

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	23 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, for non-hazardous; 3.55% to 19.05% for hazardous
Investment Rate of Return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.70%	21.75%
Non-U.S. Equity	6.35%	21.75%
Core Bonds	0.00%	10.00%
Specialty Credit/ High Yield	2.80%	15.00%
Real Estate	5.40%	10.00%
Opportunistic Return	N/A	0.00%
Real Return	4.55%	10.00%
Private Equity	9.70%	10.00%
Cash	-0.60%	1.50%
		100.00%

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 15 - Retirement Plan (Continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 19,224,052
Current discount rate	6.25%	\$ 15,056,571
1% increase	7.25%	\$ 11,645,661

Payables to the pension plan: At June 30, 2022, the City did not have a payable for insurance contributions.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

COMPONENT UNIT

The Shelbyville Municipal Water and Sewer Commission also participates in the CERS administered by the Kentucky Retirement System. The table below provides information about the Commissions net pension liability as of June 30, 2022. Additional information about the Commissions retirement plan can be obtained from their separately issued audited financial statements.

	Discount rate	Commission's proportionate share of net pension liability
1% decrease	5.25%	\$ 4,608,369
Current discount rate	6.25%	\$ 3,593,160
1% increase	7.25%	\$ 2,753,057

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 16 – Other Post-Employment Benefits (OPEB)

Primary Government

At June 30, 2022, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Inflows of Resources	<u>\$ 1,889,983</u>
Deferred Outflows of Resources	<u>\$ 2,163,758</u>
Net OPEB Liability:	<u>\$ 4,558,599</u>

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2022, was 5.78% (non-hazardous) and 10.47% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were \$371,125 for the year ended June 30, 2022, for both non-hazardous and hazardous combined. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 16 – Other Post-Employment Benefits (OPEB) (Continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Valuation Date	June 30, 2020
Experience Study	July 1, 20008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	23 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, for non-hazardous; 3.55% to 19.05% for hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre--65	Initial trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trends starting at 5.50% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-hazardous and Hazardous Systems, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

Discount Rate

Single discount rates of 5.20% for CERS non-hazardous and 5.05% for CERS Hazardous were used to measure the total OPEB liability as of June 30, 2021. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 16 – Other Post-Employment Benefits (OPEB) (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.70%	21.75%
Non-U.S. Equity	6.35%	21.75%
Core Bonds	0.00%	10.00%
Specialty Credit/ High Yield	2.80%	15.00%
Real Estate	5.40%	10.00%
Opportunistic Return	N/A	0.00%
Real Return	4.55%	10.00%
Private Equity	9.70%	10.00%
Cash	-0.60%	1.50%
		<u>100.00%</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.20%	\$ 6,514,739
Current discount rate	5.20%	\$ 4,558,599
1% increase	6.20%	\$ 2,979,062

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates follows:

Healthcare Cost Trend Rate	City's proportionate share of net OPEB liability
1% decrease	\$ 3,066,432
Current healthcare rate	\$ 4,558,599
1% increase	\$ 6,380,041

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 16 – Other Post-Employment Benefits (OPEB) (Continued)

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the City recognized OPEB expense of \$400,783. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 270,453	353,574
Implicit subsidy	64,136	-
Differences between expected and actual results	297,233	725,039
Changes of assumptions	1,160,811	2,386
Net difference between projected and actual earnings on Plan investments	-	818,984
City contributions subsequent to the measurement date	371,125	-
Total	\$ 2,163,758	\$ 1,899,983

The \$371,125 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2023	(\$112,152)
2024	16,171
2025	27,382
2026	(135,964)
2027	33,078
Total	\$ (171,485)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 16 – Other Post-Employment Benefits (OPEB) (Continued)

COMPONENT UNIT

The Shelbyville Municipal Water and Sewer Commission also participates in the CERS administered by the Kentucky Retirement System. The table below provides information about the Commissions net OPEB liability as of June 30, 2022. Additional information about the Commissions retirement plan can be obtained from their separately issued audited financial statements.

	Discount Rate	Commission's proportionate share of net OPEB liability
1% decrease	4.20%	\$ 1,480,990
Current discount rate	5.20%	\$ 1,078,659
1% increase	6.20%	\$ 748,479

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates follows:

Healthcare Cost Trend Rate	Commission's proportionate share of net OPEB liability
1% decrease	\$ 776,506
Current healthcare rate	\$ 1,078,659
1% increase	\$ 1,443,361

Note 17 – Interfund Transfers

Interfund transfers during the year ended June 30, 2022, were as follows:

	Transfer In	Transfer Out
General Fund	\$ 161,307	\$ 78,098
Golf Fund	75,000	-
Water & Sewer Component Unit	-	158,209
	\$ 236,307	\$ 236,307

Transfers are used to (a) move funds from one fund to another fund according to an agreement and to (b) use unrestricted revenues collected in the general fund to finance other funds operations

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2022

Note 18 – Related Party Transactions

The City maintains cash deposits at a local financial institution in which one of its council members is affiliated.

REQUIRED SUPPLEMENTARY INFORMATION

City of Shelbyville, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2022

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 5,432,000	\$ 5,432,000	\$ 6,068,200	\$ 636,200
Licenses and permits	4,207,500	4,207,500	5,543,033	1,335,533
Intergovernmental revenue	289,500	289,500	268,147	(21,353)
Charges for services	93,000	93,000	115,309	22,309
Interest income	20,000	20,000	16,734	(3,266)
Fines and forfeitures	18,500	18,500	24,792	6,292
Miscellaneous income	17,000	17,000	22,863	5,863
Total Revenues	10,077,500	10,077,500	12,059,078	1,981,578
Expenditures				
General government	4,788,500	4,788,500	5,399,308	(610,808)
Police	2,470,500	2,470,500	2,368,301	102,199
Fire	1,562,500	1,562,500	1,603,619	(41,119)
Streets	750,500	750,500	662,241	88,259
Parks & recreation	350,000	350,000	365,757	(15,757)
Community Development	115,000	115,000	115,070	(70)
Debt service	-	-	1,064,616	(1,064,616)
Capital outlay	875,000	875,000	2,339,982	(1,464,982)
Total expenditures	10,912,000	10,912,000	13,918,894	(3,006,894)
Excess (deficiency) of revenues over expenditures	(834,500)	(834,500)	(1,859,816)	(1,025,316)
Other financing sources (uses):				
Operating transfers in	790,000	790,000	161,307	(628,693)
Operating transfers out	-	-	(78,099)	(78,099)
Other income	-	-	(11,449)	(11,449)
Total other financing sources (uses)	790,000	790,000	71,759	(718,241)
Excess (deficiency) of revenues over expenditures and transfers	\$ (44,500)	\$ (44,500)	(1,788,057)	\$ (1,743,557)
Fund balance beginning of year			9,923,694	
Fund balance end of year of year			\$ 8,135,637	

City of Shelbyville, Kentucky
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Eight Fiscal Years

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
City's proportion of the net pension liability	0.440312%	0.062190%	0.455780%	0.060073%	0.453216%	0.062084%	0.510120%	0.057376%	0.431065%	0.058935%
City's proportionate share of the net pension liability	\$5,292,000	\$2,018,000	\$6,996,710	\$2,582,846	\$7,776,914	\$3,056,797	\$11,412,805	\$3,358,394	\$10,425,121	\$3,589,321
City's covered employee payroll	\$2,205,558	\$1,400,221	\$2,445,532	\$1,481,018	\$2,853,620	\$1,454,501	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157
City's proportion of the net position liability as a percentage of its covered-employee payroll	239.94%	144.12%	286.10%	174.40%	272.53%	210.16%	470.43%	229.92%	442.08%	237.84%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%	53.95%	55.50%	49.80%	53.50%	49.26%	53.54%
	June 30, 2020		June 30, 2021		June 30, 2022					
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous				
City's proportion of the net pension liability	0.394089%	0.059832%	0.439997%	0.064663%	0.411866%	0.064181%				
City's proportionate share of the net pension liability	\$10,885,902	\$4,208,011	\$13,266,036	\$4,959,599	\$10,964,529	\$4,092,042				
City's covered employee payroll	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656	\$2,504,353	\$1,884,407				
City's proportion of the net position liability as a percentage of its covered-employee payroll	389.13%	255.26%	528.71%	366.66%	437.82%	217.15%				
Plan fiduciary net position as a percentage of the total pension liability	46.63%	50.45%	44.11%	47.51%	22.84%	46.05%				

City of Shelbyville, Kentucky
Schedule of the City's Pension Contributions
County Employees' Retirement System
Last Eight Fiscal Years

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Contractually required contribution	\$ 457,212	\$ 178,948	\$ 495,465	\$ 184,091	\$ 619,521	\$ 202,903	\$ 538,578	\$ 211,504	\$ 585,875	\$ 244,702
Contributions in relation to the contractually required contribution	\$ (457,212)	\$ (178,948)	\$ (495,465)	\$ (184,091)	\$ (619,521)	\$ (202,903)	\$ (538,578)	\$ (211,504)	\$ (585,875)	\$ (244,702)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$2,205,558	\$1,400,221	\$2,445,532	\$1,481,018	\$ 2,853,620	\$ 1,454,501	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157
Contributions as a percentage of covered employee	20.73%	12.78%	20.26%	12.43%	21.71%	13.95%	22.20%	14.48%	24.84%	16.21%
	June 30, 2020		June 30, 2021		June 30, 2022					
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous				
Contractually required contribution	\$ 856,036	\$ 318,167	\$ 767,788	\$ 261,063	\$ 847,974	\$ 398,929				
Contributions in relation to the contractually required contribution	\$ (856,036)	\$ (318,167)	\$ (767,788)	\$ (261,063)	\$ (847,974)	\$ (398,929)				
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
City's covered-employee payroll	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656	\$2,504,353	\$1,884,407				
Contributions as a percentage of covered employee	30.60%	19.30%	30.60%	19.30%	33.86%	21.17%				

City of Shelbyville, Kentucky
Schedule of the City's OPEB Contributions
County Employees' Retirement System
Last Five Fiscal Years

	June 30, 2018		June 30, 2019		June 30, 2020		June 30, 2021		June 30, 2022	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Contractually required contribution	\$ 226,833	\$ 68,651	\$ 246,684	\$ 79,364	\$ 266,322	\$ 78,470	\$ 238,867	\$ 64,386	\$ 262,206	\$ 108,919
Contributions in relation to the contractually required contribution	(226,833)	(68,651)	(246,684)	(79,364)	(266,322)	(78,470)	(238,867)	(64,386)	(262,206)	(108,919)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656	\$2,504,353	\$1,884,407
Contributions as a percentage of covered-employee payroll	9.35%	4.70%	10.46%	5.26%	9.52%	4.76%	9.52%	4.76%	10.47%	5.78%

City of Shelbyville, Kentucky
Schedule of Proportionate Share of the Net OPEB Liability
County Employees' Retirement System
Last Five Fiscal Years
(\$ in thousands)

	June 30, 2018		June 30, 2019		June 30, 2020		June 30, 2021		June 30, 2022	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
City's proportion of the net OPEB liability	0.510120%	0.057376%	0.431089%	0.058932%	0.394143%	0.059816%	0.440741%	0.064644%	0.411865%	0.064166%
City's proportionate share of the net OPEB liability	4,217	1,153	3,072	1,047	2,917	1,007	4,073	1,562	3,330	1,228
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	59.0%	52.4%	64.3%	57.6%	64.4%	60.4%	58.8%	51.6%	66.8%	62.9%
Covered Payroll	\$ 2,426	\$ 1,461	\$ 2,358	\$ 1,509	\$ 2,798	\$ 1,649	\$ 2,509	\$ 1,353	\$ 2,504	\$ 1,884
Net OPEB Liability as a Percentage of Covered Payroll	173.8%	78.9%	130.3%	69.4%	104.3%	61.1%	162.3%	115.4%	133.0%	65.2%

OTHER SUPPLEMENTARY INFORMATION

City of Shelbyville, Kentucky
 Budgetary Comparison Schedule
 Proprietary Fund (Golf Course)
 For the Year Ended June 30, 2022

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues	\$ 1,116,404	\$ 1,116,404	\$ 876,426	\$ (239,978)
Expenditures	1,056,500	1,056,500	1,200,931	(144,431)
Excess (deficiency) of revenues over expenditures	59,904	59,904	(324,505)	(384,409)
Non-Operating Income (Expense)				
Interest income	-	-	27	27
Interest expense	-	-	(9,599)	(9,599)
Transfers (to) from other funds	-	-	75,000	75,000
	-	-	65,428	65,428
Change in net position	<u>\$ 59,904</u>	<u>\$ 59,904</u>	<u>(259,077)</u>	<u>\$ (318,981)</u>
Net Position, beginning of year, as restated			<u>3,011,568</u>	
Net Position, end of year			<u>\$ 2,752,491</u>	

City of Shelbyville, Kentucky
Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2022

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental revenue	\$ 375,000	\$ 375,000	\$ 531,205	\$ 156,205
Restaurant tax	625,000	625,000	727,646	102,646
Interest income	225	225	226	1
Miscellaneous income	-	-	12,955	12,955
Total Revenue	1,000,225	\$ 1,000,225	\$ 1,272,032	\$ 271,807
Expenditures:				
Street department	242,000	242,000	86,900	155,100
General government	40,000	40,000	45,196	(5,196)
Fire department	-	-	37,346	(37,346)
Community development	650,000	650,000	145,033	504,967
Debt service	291,500	291,041	290,538	503
Capital outlay	-	-	618,639	(618,639)
Total expenditures	1,223,500	1,223,041	1,236,928	(13,887)
Excess (deficiency) of revenues over expenditures	(223,275)	(222,816)	35,104	257,920
Excess (deficiency) of revenues over expenditures and transfers	<u>\$ (223,275)</u>	<u>\$ (223,275)</u>	35,104	<u>\$ 257,920</u>
Fund balance, beginning of year			<u>1,313,136</u>	
Fund balance, end of year			<u>\$ 1,348,240</u>	

City of Shelbyville, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022

Special Revenue Funds

	Special Grants Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Law E Block Grant	Retirement / Benefits Fund	Asset Forfeiture Fund	Property Maintenance	Safer Grant	Restaurant Tax Fund	Total
Assets										
Cash	\$ 48,597	\$ 521,881	\$ 25,047	\$ 11,136	\$ 162,714	\$ 21,224	\$ 23,666	\$ 2,250	\$ 487,565	\$ 1,304,080
Receivables	-	50,151	-	-	-	-	-	-	-	50,151
Total assets	\$ 48,597	\$ 572,032	\$ 25,047	\$ 11,136	\$ 162,714	21,224	\$ 23,666	\$ 2,250	\$ 487,565	\$ 1,354,231
Liabilities and Fund Balance										
Accounts payable	\$ -	\$ 5,991	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,991
Total liabilities	-	5,991	-	-	-	-	-	-	-	5,991
Fund balance, restricted	-	566,041	25,047	-	-	21,224	-	-	-	612,312
Fund balance, assigned	48,597	-	-	11,136	162,714	-	23,666	2,250	487,565	735,928
Total fund balance	48,597	566,041	25,047	11,136	162,714	21,224	23,666	2,250	487,565	1,348,240
Total liabilities and fund balance	\$ 48,597	\$ 572,032	\$ 25,047	\$ 11,136	\$ 162,714	\$ 21,224	\$ 23,666	\$ 2,250	\$ 487,565	\$ 1,354,231

City of Shelbyville, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2022

Special Revenue Funds

	Special Grants Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Law E Block Grant Fund	Retirement Benefits Fund	Asset Forfeiture Fund	Property Maintenance	Safer Grant	Restaurant Tax Fund	Total
Revenues										
Intergovernmental revenue	\$ 175,000	\$ 286,954	\$ -	\$ 10,320	\$ -	\$ 19,335	\$ -	\$ 39,596	\$ -	\$ 531,205
Restaurant tax	-	-	-	-	-	-	-	-	727,646	727,646
Interest income	-	197	19	-	10	-	-	-	-	226
Miscellaneous income	-	-	-	-	598	-	12,357	-	-	12,955
Total revenues	175,000	287,151	19	10,320	608	19,335	12,357	39,596	727,646	1,272,032
Expenditures										
Street department	-	86,900	-	-	-	-	-	-	-	86,900
Police department	-	-	-	-	-	13,276	-	-	-	13,276
General government	-	-	-	-	7,198	-	-	-	37,998	45,196
Fire department	-	-	-	-	-	-	-	37,346	-	37,346
Community development	145,033	-	-	-	-	-	-	-	-	145,033
Debt service	-	-	-	-	-	-	-	-	290,538	290,538
Capital outlay	-	-	-	-	-	-	-	-	618,639	618,639
Total expenditures	145,033	86,900	-	-	7,198	13,276	-	37,346	947,175	1,236,928
Excess (deficiency) of revenues over expenditures	29,967	200,251	19	10,320	(6,590)	6,059	12,357	2,250	(219,529)	35,104
Non-operating Revenues (Expenses)										
Transfers In	-	-	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-	-	-
Total Non-operating Revenue (Expense)	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures and transfers	29,967	200,251	19	10,320	(6,590)	6,059	12,357	2,250	(219,529)	35,104
Fund balance, beginning of year	18,630	365,790	25,028	816	169,304	15,165	11,309	-	707,094	1,313,136
Fund balance, end of year	\$ 48,597	\$ 566,041	\$ 25,047	\$ 11,136	\$ 162,714	\$ 21,224	\$ 23,666	\$ 2,250	\$ 487,565	\$ 1,348,240

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditors' Report

To the Mayor and City Council
City of Shelbyville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Shelbyville, Kentucky's basic financial statements and have issued our report thereon dated September 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shelbyville, Kentucky's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shelbyville, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2022-01, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelbyville, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Shelbyville, Kentucky's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Shelbyville, Kentucky's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Shelbyville, Kentucky's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Shelbyville, Kentucky's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelbyville, Kentucky's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
Richmond, Kentucky
September 29, 2023

Finding: 2022-01

Condition: The City does not prepare financial statements in accordance with Generally Accepted Accounting Principles.

Criteria: As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Cause: The City's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Numerous adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.

Effect: The City was unable to prepare their financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Without proper internal resources and procedures to ensure that the financial statements are prepared in accordance with general accepted accounting principles, the risk of material misstatement is increased.

Management engaged the auditor to prepare draft financials statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to issuance

Recommendation: The City's internal financial statements that are prepared by management are not required to be prepared in accordance generally accepted accounting principles (GAAP). However, the City's financial statements that are submitted for external audit are required to be prepared accordance with GAAP. Currently the City has limited resources to review their financial statements and related note disclosures in relation to GAAP to provide reasonable assurance that reliable financial reporting will be achieved. Management must be intentional in its plan to prepare financial statements that are in accordance with GAAP. The following includes suggestions to strengthen internal controls over financial reporting:

- Knowledgeable personnel monitor changes in authoritative guidance and make the appropriate changes to the entity's accounting policies and procedures on a timely basis. In addition, obtain annual training and updates on governmental financial reporting issues.
- An independent review of significant judgments and estimates included in the financial records is performed at the end of every accounting period by knowledgeable personnel. An independent review of the financial statements and all related disclosures is performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with GAAP and the entity's accounting and disclosure policies. This independent review can include discussion with external auditor prior to start of annual financial statement audit.
- Up-to-date disclosure checklists are used to ensure that all relevant financial information is disclosed in the appropriate accounting period in accordance with GAAP and the entity's accounting and disclosure policies.
- For each financial statement disclosure, a supporting analysis is prepared and documented in accordance with relevant GAAP and the entity's accounting and disclosure policies.

- All financial statements and related disclosures are approved by management prior to the release of the reports to third parties.

Response:

Management understands and agrees with the auditor's recommendations and the need to implement the recommendations to improve financial reporting, mitigate risk, and enhance internal controls. Management is currently in the process of reviewing its procedures to strengthen internal controls and accounting policies.

City of Shelbyville, Kentucky
Officers and Council Members
June 30, 2022

		<u>Term Expires</u>
Mayor	David Eaton	December 31, 2022
City Council	Frank Page	December 31, 2022
	Pam Heady Carter	December 31, 2022
	Shane Suttor	December 31, 2022
	Troy Ethington	December 31, 2022
	Tom Hardesty	December 31, 2022
	Mike Zoeller	December 31, 2022
City Administrator	Fred Rogers	
City Clerk	Carla Wainscot	